ARTICLE APPEARED
ON PAGE 31

THE WALL STREET JOURNAL
18 May 1981

INTERNATIONAL

CIA Alters Its Soviet Oil Forecast

By STEVE MUFSON
Staff Reporter of THE WALL STREET JOURNAL

CAMBRIDGE, Mass.—In 1977, the Central Intelligence Agency predicted bad news for oil markets. The Russians were coming!

The CIA said the oil-producing nations would soon have to feed another big consumer: the Soviet Union. The Soviets' oil output was about to drop sharply, making them huge net importers of oil by 1985, the CIA said.

Recently, however, the CIA has changed its mind. The agency will issue a report this summer saying that the Soviet Union won't become an oil-hungry bear and might be able to keep exporting oil through 1985.

The CIA's revised forecast may lessen anxiety about Soviet actions. The earlier report sparked speculation that the Soviets would try to befriend Iran or that their invasion of Afghanistan was designed to close in on the Persian Gulf oil fields. As late as April 1980, CIA Director Stansfield Turner was telling U.S. Senators that Soviet military action to relieve its energy problems couldn't be ruled out.

But last week, CIA analyst James Noren told Soviet-studies scholars at Harvard University that the CIA has upgraded its estimate of the Soviets' 1985 oil output to between 10 million and 11 million barrels a day, well above the earlier forecast of eight million to 10 million. The Soviet Union, the world's biggest oil producer, currently produces more than 12 million barrels a day and exports 1.5 million. Saudi Arabia, the world's second-largest producer, turns out 10.4 million barrels a day.

"It doesn't mean the Russians will be benign or stay out of the Middle East," says Marshall Goldman, who is an economics professor at Wellesley College, the associate director of Harvard's Russian Research Center and a critic of the 1977 CIA estimate. "But those who think the Soviets must go into the Middle East for oil are wrong."

Mr. Goldman argues that even the new CIA estimate is too pessimistic. A draft of the CIA report calls 1980 the record year for Soviet production, but Mr. Goldman says 1981 production has been running about 2.5% ahead of last year's 11.9 million barrel-a-day rate.

Mr. Noren attributes the higher production levels to "the substantial increase in development drilling in western Siberia ..." where the number of feet drilled has more than doubled since 1977.

The Soviets might be able to keep exporting oil through 1985.

Investment Stressed

The draft of the CIA report stresses forecasts based on investment instead of forecasts based on the ratio of oil reserves to oil production. And Soviet capital investment in drilling has increased.

Tracking the Soviet oil industry is difficult. The Soviets haven't published oil-reserve figures since 1938. Founded in the 1860s, the Russian oil industry is one of the world's oldest. As a result, there is considerable uncertainty about the remaining lives of the older oil fields.

Although the Soviet Union has some of the world's best oil prospects, it isn't clear whether the country will be able to exploit them. "The energy future of the U.S.S.R., although bleak, is probably better than that of most other industrial countries," says the CIA draft. "The U.S.S.R. is extremely well endowed with energy resources. ... These energy resources have one thing in common, however; they all will take enormous investments to develop. ...

That point was stressed at the Harvard seminar last week. "Maybe they can achieve the quantitative targets" for oil production in the current five-year plan, says Abram Bergson, Harvard economics professor, "but you must consider the costs in capital and labor."

The latest five-year plan calls for oil production to grow between 0.6% and 1.4% a year, well below the 4.2% annual growth the Soviet Union achieved from 1975 to 1980. Even modest growth will be difficult because of the remoteness of many prospects and the need for advanced drilling technology available only in the West.

With the 1979 doubling of oil prices, Mr. Goldman argues, the Soviet Union will be able to finance exploration through exports. These exports will also improve the Soviets' international-payments situation. Other seminar participants contend that exploration will drain money needed in other areas of the economy. "Costs of drilling will rise sharply, and this will be a drag on productivity," Mr. Bergson says, "There will be a trade-off between increasing domestic consumption and capital investment."

No Price Incentive

The Soviets may be able to reduce domestic oil consumption. "They are raising conservation to the same level of importance as production," says Mr. Noren. But he warns that "conservation is a slow process, especially in the Soviet Union, where there isn't any price incentive."

The Soviet Union fixes prices internally and rarely adjusts them. Soviet prices haven't changed since 1967, long before the explosion in world oil prices and the big increases in drilling costs. The new five-year plan calls for a general price adjustment in 1982, and oil prices will presumably be adjusted higher relative to other commodities.

There was speculation at the meeting about whether the Soviet Union might seek more Western trade or foreign investment to help develop its oil resources. Tense relations with the West have slowed technology exports to the Soviet Union, but the Commerce Department has licensed the export of at least one sophisticated drilling rig. According to Herta Heiss, a Commerce Department official dealing with Soviet affairs, "Equipment has been licensed, but the technology to manfacture such equipment is under tighter control."

Some Japanese trading companies have indicated a willingness to help the Soviets drill on and off their eastern coast in return for a share of production. One such venture has been established, with the Japanese providing some technology and capital.

The meeting's participants agree that, no matter what approach the Soviets take to oil development, they won't require massive oil imports soon.